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1. MONETARY POLICIES AND DEVELOPMENTS

Policy Actions

During the quarter under review Bank of Uganda (BOU) continued with the pursuit of tight monetary policy stance following complications arising in the second quarter of 1998/99 when autonomous factors injected huge amounts of liquidity into the system. In addition, problem banks faced with liquidity shortage and insolvency prompted BOU to inject liquidity into the system through lending. BOU's lending to commercial banks increased from Shs23.4 billion as at end-December, 1998 to Shs30.5 billion by end-March, 1999.

As a result of the above developments base money increased above desired levels, rising from end-December level of Shs423.3 billion to Shs446.7 billion. Moreover, BOU monetary policy management was also in part hampered by the low sensitivity of the market instruments that seemed to be exacerbated by the skewness in liquidity distribution in the banking system.

With the objective of mitigating the impact of such injection of liquidity to the future price stability objective, BOU actively intervened to control the growth of money. The issue of treasury bills was stepped up to mop up liquidity. In the quarter under review, the net issue amounted to Shs19.18 billion. In addition, BOU issued BOU bills amounting to Shs19.9 billion.

Both the Rediscount Rate and the Bank Rate continued to be based on the treasury bill and the shilling inter-bank

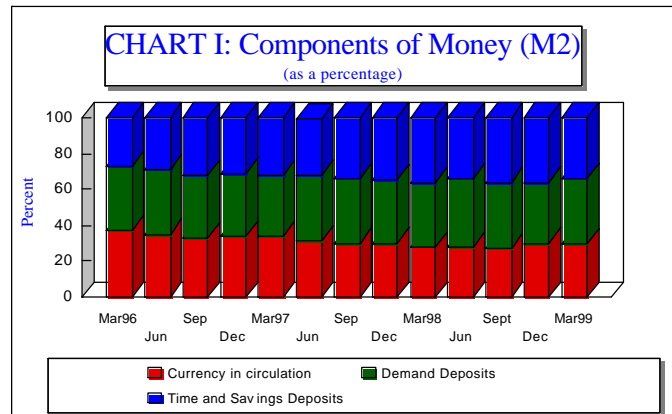
market rates, respectively with a margin to reflect the monetary policy stance adopted by the Bank. Following developments in the inter-bank market and the need to tighten the monetary policy stance, the policy margin on the Bank rate was revised from 2 percentage points in December, 1998 to 4 percentage points in January, 1999.

The minimum reserves that banks can hold on demand deposits and time and savings deposits were maintained at 9 per cent and 8 per cent respectively.

Money Supply

During the quarter ended March 1999 money supply as measured by (M3) grew by 2.0 per cent, while (M2) declined by 0.7 per cent. The comparable growth rates for the second quarter of 1998/99 were 9.9 per cent and 10.2 per cent for M3 and M2, respectively. The slow growth in money supply over the quarter was attributed to the tight monetary policy pursued.

Currency in circulation declined by 3.8 per cent or Shs10.9 billion to Shs275.0 billion compared to a growth of 21.1 per cent in the previous quarter (see table 1). The drop in currency in circulation was partly due to seasonality (the demand for more currency over Christmas unwinds in January onwards) and to the mopping up of excess liquidity in the economy. The share of currency in circulation as a ratio of M2 declined from 30.3 per cent as at end-December, 1998 to 29.3 per cent for the quarter ended March,



1999 (see chart 1). As a proportion of M2, the share of demand deposits increased from 35.0 per cent as at end-December, 1998 to 36.4 per cent by

end-March, 1999, while that of private time and savings deposits dropped from 35.2 per cent to 34.3 per cent over the same period. Despite the intervention into Greenland Bank by BOU, the public maintained confidence in banks

The Net Foreign Assets (NFA) of the banking system increased by 14.5 per cent, equivalent to a change of Shs93.2 billion, during the quarter to Shs734.6 billion as at end-March, 1999. This was largely accounted for by the increase in the NFA of Monetary Authorities of Shs62.2 billion and a rise in net foreign assets of commercial banks by Shs4.3 billion.

Other items (net) of the banking system declined by Shs48.2 billion over the period under review. As a result of the

as is evidenced by the growth in deposit base which increased by 0.7 per cent during the period under review compared to a rise of 3.0 per cent in the second quarter of 1998/99. Demand deposits increased by 4.7 per cent, while private time and savings deposits shrank by 3.4 per cent.

During the quarter under review net domestic credit fell by 5.3 per cent equivalent to Shs23.2 billion to Shs437.6 billion as at end-March, 1999. This compares with an increase of 19.5 per cent in the previous quarter. The decline was on account of increased Government savings of Shs24.9 billion with the banking system and far slower growth in private sector credit. Private sector credit (net) rose by 0.4 per cent, much lower than 7.3 per cent growth attained in the second quarter of 1998/99 largely on account of enhanced surveillance in the financial sector by BOU.

movements in net domestic credit and other items (net), the Net Domestic Assets declined by Shs56.3 billion to Shs165.6 billion at end-March, 1999.

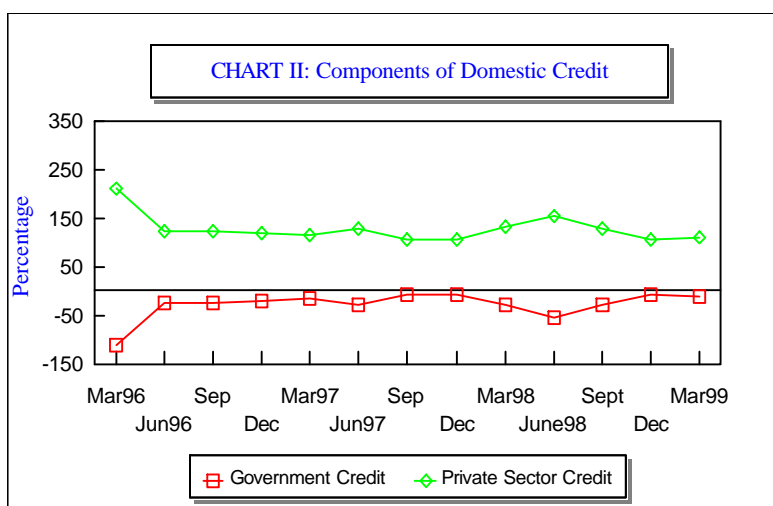


Table 1: Summary Monetary Survey: December 1998 to March 1999.
(Shs Billion)

	December 98	January 99	February 99	March 99
Net Foreign Assets	641.3	648.6	667.9	734.6
Monetary Authorities (net)	438.5	438.3	448.8	527.6
Foreign Reserves	981.7	973.8	974.9	1043.9
Commercial Banks	202.7	210.3	219.2	207.0
Net Domestic Credit	460.8	461.1	462	437.6
Claims on Government (net)	-24.9	-41.8	-33.8	-49.8
Claims on Private sector	485.6	502.8	495.8	487.3
Crop Finance	78.2	70.1	70.4	74.7
Other Loans	407.5	432.7	425.4	412.6
Other Items (Net)	-11.7	-24.6	-16.2	-59.9
Revaluation	227.3	216.2	213.1	212.2
Other (net)	-231.3	-237.8	-221.7	-270.5
NDA (net of revaluation)	221.9	220.4	232.8	165.6
Broad Money - M3	1090.5	1085.1	1113.8	1112.3
Foreign Exchange Accounts	145.9	161.9	169.9	174.1
Broad Money - M2	944.6	923.2	943.8	938.2
Currency in Circulation	285.9	278.1	282.2	275
Private Demand Deposits	326.6	329.3	353.2	341.8
Private Time & Savings Deposits	332.2	315.9	308.4	321.4

Source: Research Department, Bank of Uganda.

2. COMMERCIAL BANKS' ACTIVITIES

Overview

Commercial bank lending to private sector increased marginally by 0.9 per cent during the quarter under review compared to a growth of 7.4 per cent in the second quarter. Net foreign assets increased by Shs4.3 billion to Shs207.0 billion. The claims on

government declined by Shs3.3 billion to Shs138.8 billion while claims on the Bank of Uganda rose by Shs39.9 billion to Shs124.9 billion and cash in vaults declined by Shs1.2 billion (or 3.6 percent). Other items net (OIN) declined further during the quarter bringing the balance to Shs137.7 billion (See table 2).

**Table 2: Commercial Banks' Assets
(Shs billion, at end of period)**

	Q4 1997/98	Q1 1998/99	Q2 1998/99	Q3 1998/99	Change, Q3 1998/99 (Shs bn)
Net Foreign Assets	187.2	176.6	202.7	207.0	4.3
Claims on the private sector	420.5	453.4	468.4	472.5	4.1
Claims on government (net)	120.6	120.0	142.1	138.8	-3.3
Claims on the Bank of Uganda	111.2	106.8	85.0	124.9	39.9
Cash in Vaults	30.3	26.9	33.0	31.8	-1.2
Other Items Net	-89.3	-109	-126.6	-137.7	-12.3
Total	780.5	774.7	804.6	837.3	32.7

Source: Bank of Uganda

Deposits

Private sector shilling deposits registered an overall growth of 0.7 per cent to Shs663.2 billion, compared to an increase of 3.0 per cent in the previous quarter. The low growth reflected during the quarter was attributed to the contraction in time and

savings deposits equivalent to 3.3 per cent from Shs332.2 billion as at end-December, 1998 to Shs321.4 billion as at end-March, 1999. This decline however, was offset by an increase in demand deposits of 4.7 per cent to Shs341.8 billion, compared to a rise of 3.0 per cent the previous quarter (table 3).

**Table 3: Private Sector Deposits with Commercial Banks
(Shs billion, at end of period)**

Deposits	Q4 1997/98	Q1 1998/99	Q2 1998/99	Q3 1998/99	Change, Q3 (%)
Demand	324.9	317.2	326.6	341.8	4.7
Time & Saving	308.6	322.5	332.2	321.4	-3.3
Total	633.5	639.7	658.7	663.2	0.7

Source: Bank of Uganda

Loans and Advances

Growth of Private Sector Credit decelerated from 5.8 per cent registered in the previous period to 4.5 per cent in the quarter under review. The outstanding stock of credit amounted to Shs496.8 billion as at end-March, 1999 up from Shs475.4 billion by end-December 1998. Credit to trade and other services sector registered a growth of 4.9 per cent with the wholesale sub-sector credit increasing by 14.4 per cent to Shs90.8 billion. Lending to the manufacturing sector was up by 11.8 to Shs139.2 billion from about 10.0 per cent in the

previous quarter. Similarly, credit to the construction sector registered an increase of 7.0 per cent well above the growth rate of 3.0 per cent recorded the previous quarter. On the contrary, credit to agriculture and transport, electricity & water sectors contracted during the period under review. Credit to the transport, electricity & water sector declined by 3.3 per cent compared to a growth of 79.8 per cent in the preceding quarter. Likewise, growth in agricultural sector credit fell by 6.9 per cent with credit for crop finance declining by 5.5 per cent (table 4).

Table 4: Outstanding Loans and Advances by Sector*
(Shs billion, at end of period)

Sector	Q4 1997/98	Q1 1998/99	Q2 1998/99	Q3 1998/99	Change Q3 (%)
Agriculture	68.4	75.2	77.2	71.9	-6.9
o/w Crop Finance	58.5	64.1	63.6	60.1	-5.5
Manufacturing	102.4	113.2	124.5	139.2	11.8
Trade & Other Services	225.4	225.2	227.8	239.0	4.9
o/w Wholesale (Imp & Exp)	96.9	99.6	79.4	90.8	14.4
Transport, Electricity and Water	12.9	11.9	21.4	20.7	-3.3
Building& Construction	18.3	23.5	24.2	25.9	7.0
Mining	0.3	0.4	0.3	0.1	-66.7
Total	427.7	449.4	475.4	496.8	4.5

Note: These differ from claims on the private sector in Tables 1& 2 in that outstanding loans and advances include administered loans and exclude lending in-kind by UCB i.e inputs like tractors.

Source: Bank of Uganda

Liquidity

During the period under review a number of commercial banks were high levels of liquidity partly as a result of liquidity support extended to weak banks. Efforts to mop up the liquidity resulted in an increased holding of both Treasury and BOU bills by

commercial banks. Notwithstanding the above efforts, the liquidity holdings remained high. The total reserves of commercial banks with the central bank amounted to Shs 135.6 billion compared to Shs101.7 billion by end-December 1998. Of this amount, the excess reserves holding amounted to Shs73.8 billion by end-March, 1999 compared to Shs55.4 billion by end-December, 1998.

**Table 5: Liquidity Indicators
(Shs billion, at end of period)**

	Q4 1997/98	Q1 1998/99	Q2 1998/99	Q3 1998/99	Change Q3 (Shs bn.)
Holdings of treasury bills	104.4	104.0	108.3	125.9	17.6
Total Reserves	116.2	106.6	101.7	135.6	33.9
Excess Reserves	59.8	57.9	55.4	73.8	18.4
Holdings of BOU bill	5.5	4.8	6.7	19.9	13.2

Source: Bank of Uganda

3. TREASURY BILLS MARKET AND INTEREST RATES DEVELOPMENTS

Treasury Bills

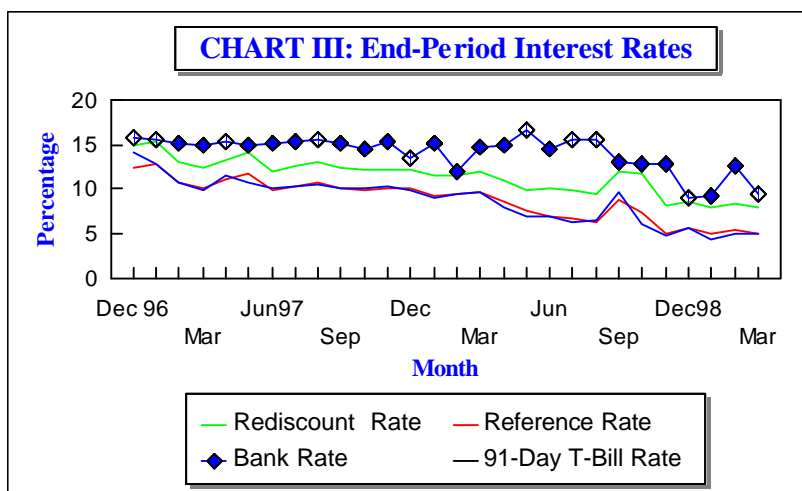
Bank of Uganda pursued a tight monetary policy stance during the quarter. Treasury bills issued over the quarter at face value totaled Shs123.22 billion while total maturities amounted to Shs104.04 billion during the same period, giving a positive net issuance of Shs19.18 billion. Consequently, the stock of treasury bills increased from Shs140.83 billion in December, 1998 to Shs160.01 billion by end-March, 1999.

Activity in the treasury bill market was vibrant during the quarter with total bids exceeding offers in most auctions. A total of thirteen auctions were held during the period under review with total bids amounting to Shs144.03 billion while offers amounted to Shs123.22 billion.

The treasury bill market remained concentrated within commercial banks whose holdings accounted for over 79 per cent of the outstanding stock of treasury bills.

Interest Rate Movements

There were mixed trends in the money market rates during the quarter under review. The interest rates on the 91-day treasury bill declined from 5.73 per cent as at end-December, 1998 to 4.37 per cent at end-January, 1999 and thereafter rose to 5.00 per cent by end-March, 1999. The interest rate on the 182-day treasury bill declined from 4.85 per cent as at end-December, 1998 to 4.20 per cent at end-January, 1999 then rose to 5.82 per cent at end-March, 1999. On the other hand, interest rates on the 273-day and 364-day bills declined steadily over the period from 6.66 per cent and 7.41 per cent as at end-December, 1998 to 5.62 and 6.90 per cent respectively, at end-March, 1999. The rediscount rate declined from 8.62 per cent as at end-December, 1998 to 8.04 per cent at end-March, 1999, whereas the bank-rate increased from 9.10 per cent to 9.38 per cent over the same period.



**Table 6: Treasury Bill Issues for January - March 1999
(in Shs billion)**

	Q1'98/99	Q2'98/99	Q3'98/99			
			Jan 99	Feb 99	Mar99	Q3'98/99
Stock of Treasury Bills	158.86	140.83	147.52	149.49	160.01	160.01
91 Day TB Factors						
Average Price	97.96	98.61	98.78	98.64	98.73	98.73
Annualised Discount Rate	8.19	5.57	4.89	5.45	5.08	5.08
Annualise discount Yield	8.63	5.77	5.05	5.64	5.25	5.25
Reference rate	7.57	8.48	5.22	5.25	5.29	5.29
Rediscount Rate	10.72	11.66	8.29	8.32	9.24	9.42
Net Issues	14.58	(18.01)	6.69	1.98	10.52	19.18
Total Issues (at face value)	120.06	100.56	34.69	39.47	49.06	123.22
91 days	99.09	84.08	27.15	33.00	40.06	100.21
182 days	6.46	6.50	2.75	2.78	3.0	8.53
273 days	8.50	5.50	1.79	2.00	3.0	6.79
364 days	6.00	4.50	3.00	1.69	3.0	7.69
Total Receipts	117.98	98.52	33.99	38.74	48.12	120.85
91 days	97.38	82.86	26.82	32.55	39.55	98.92
182 days	6.21	6.32	2.68	2.71	2.91	8.30
273 days	7.95	5.21	1.71	1.91	2.87	6.49
364 days	5.43	4.15	2.78	1.57	2.79	7.14
Total Maturities	105.49	118.58	28.00	37.50	38.54	104.04

Source: Bank of Uganda

Inter-Bank Money Market

The shilling inter-bank money market was generally active throughout the period under review. A total of Shs28.13 billion was transacted in the market. The weighted average inter-bank rate fluctuated over the period

from 4.0 per cent at the beginning of the quarter, reaching 12.31 per cent on 12th February, 1999 and then dropped to 5.0 per cent at the close of the quarter. The variation in the weighted average inter-bank rate reflected the market segmentation.

4. PUBLIC FINANCE

Revenue

During the third quarter of fiscal year 1998/99, Government revenue collection (including non URA revenue) amounted to Shs247.9 billion, compared to the URA target of Shs234 billion. The improvement in tax collection was partly attributed to various reforms implemented. This included changes introduced by the 1997 Income Tax Act which significantly boosted company and personal income tax revenues and to the improvement in tax administration in the URA. In addition, the improvement reflected the depreciation of the shilling vis- a -vis the US dollar towards the end of the quarter which led to higher import tax collection.

Expenditure

Total government expenditure during the period under review was Shs240.1 billion, less than Shs275.0 billion spent

in the previous quarter. The bulk of the expenditure (88.6 per cent) went to finance the recurrent budget. Total recurrent budget amounted to Shs212.7 billion with non wage recurrent taking Shs85.1 billion. This covers travel, training (both domestic and foreign), and sundry purchases and others. A total of Shs23.9 billion was paid in interest on local and external debt, while statutory payments amounted to Shs7.5 billion. Development expenditure amounted to Shs27 billion over the quarter. Under net lending and investment, Government spent Shs0.5 billion.

Overall Budget Balance

The operations mentioned above resulted in a surplus of Shs101.3 billion which was partially offset by settlement of arrears amounting to Shs66.6 billion and adjustment to cash of Shs8.4 billion. The resultant overall balance was therefore a surplus of Shs26.2 billion.

**Table 7: Budgetary Operations (Cash Basis) January 1999-March 1999
(In Billion Shillings)**

	Oct-Dec98	Jan 99	Feb 99	Mar 99	Jan-Mar 99
Revenue and Grants	263.1	102.1	89.9	149.3	341.4
Total revenue	239.7	83.9	78.8	85.3	247.9
Tax revenue	239.5	83.7	78.8	84.9	247.4
Non-Tax revenue	0.0	0.0	0.0	0.0	0.0
Other Revenues	0.2	0.1	0.0	0.4	0.5
Grants	23.4	18.3	11.2	64.1	93.5
Expenditures and net lending	249.2	72.2	78.5	89.4	240.1
Recurrent expenditure	220.0	62.9	71.6	78.2	212.7
Statutory	9.0	2.5	2.5	2.5	7.5
Wages and salaries	82.2	30.0	29.3	29.8	89.0
Interest payments	13.2	4.8	7.8	11.4	23.9
Other non-wage recurrent	108.4	23.3	29.6	32.2	85.1
URA transfers	7.1	2.4	2.4	2.4	7.1
Contingency					
Development Expenditure	29.0	9.1	6.6	11.3	27.0
External					0.0
Domestic counterpart	29.0	9.1	6.6	11.3	27.0
Net lending and investment	0.1	0.2	0.3	0.0	0.5
Overall deficit	13.9	29.9	11.5	59.9	101.3
Change in arrears (net)	(43.0)	(26.8)	(22.0)	(17.8)	(66.6)
Adjustment to cash	(43.6)	0.9	(5.7)	(3.5)	(8.4)
Overall deficit (cash)	(72.6)	3.9	(16.3)	38.6	26.2
Financing	72.6	(3.9)	16.3	(38.6)	(26.2)
External Financing (net)	6.5	(8.4)	(3.9)	(12.7)	(24.9)
Domestic Financing	59.4	(23.3)	38.1	(20.6)	(5.8)
Bank	58.3	(18.5)	9.7	(22.9)	(31.7)
Non-bank	1.1	(4.8)	28.4	2.3	25.9
Residual	6.8	27.7	(17.9)	(5.3)	4.6

Source: Ministry of Finance and Economic Planning

5. EXTERNAL SECTOR POLICIES AND DEVELOPMENT

Developments

In the period under review, the Balance of Payments (BOP) registered an overall surplus of US\$46.67 million compared to a surplus of US\$17.24 million recorded in the second quarter of 1998/99. The improvement in the overall balance was attributed to an improvement in services and income (net) from a deficit of US\$64.05 million in the second quarter to a deficit of US\$48.51 million in the third quarter of 1998/99. Exports grew by 16.8 per cent from US\$144.54 million in the second quarter to US\$168.81 million in the third quarter, while imports declined by 4.8 per cent from US\$332.55 million to US\$316.57 million.

Exports

Exports earnings for the quarter under review were US\$168.81 million, 16.8 per cent higher than in the second quarter and 25 per cent higher than the earnings of the corresponding quarter in 1997/98 (see table 8). The improved performance in export earnings accrued from coffee, gold, cotton, beans and electricity.

Coffee exports in the period under review was up by 39.1 per cent from US\$69.63 million in the second quarter to US\$96.87 million in the third quarter and was 16.2 per cent higher than in the corresponding quarter in 1997/98. The average coffee price for the third quarter was US\$1.44 per kg compared to US\$1.36 per kg in the preceding quarter. In volume terms coffee exports increased by 38.1 per cent from 810,000 (60 kg) bags in the second quarter to 1,119,000 bags exported in the third quarter. Compared to the corresponding quarter in 1997/98, the volume of coffee exports increased by 31.5 per cent.

Non-coffee exports declined by 3.8 per cent, from US\$74.81 million in the second quarter to US\$71.94 million in the third quarter. The decline in non-coffee exports was partly due to the fall in fish exports following a ban on exports of fish and a decline in exports of tea and other items. Fish exports fell from US\$16.63 million in the second quarter to US\$12.74 million in the third quarter. Similarly, tea exports declined by 28.7 per cent to US\$4.96 million in the same period. However, these declines were partially offset by increases in exports of gold, cotton, beans and electricity.

**Table 8: Summary Export Developments
(US \$ million)**

	<u>97/98 Q3</u>	<u>97/98 Q4</u>	<u>98/99 Q1</u>	<u>98/99 Q2</u>	<u>98/99Q3</u>
<u>Total Exports</u>	<u>135.04</u>	<u>105.7</u>	<u>125.37</u>	<u>144.54</u>	<u>168.81</u>
<u>Coffee</u>	<u>83.35</u>	<u>63.20</u>	<u>78.79</u>	<u>69.63</u>	<u>96.87</u>
<u>Non Coffee</u>	<u>51.68</u>	<u>42.50</u>	<u>46.58</u>	<u>74.81</u>	<u>71.94</u>
<u>Electricity</u>	<u>3.00</u>	<u>2.95</u>	<u>2.94</u>	<u>2.85</u>	<u>3.10</u>
<u>Gold</u>	<u>9.02</u>	<u>4.50</u>	<u>2.20</u>	<u>2.89</u>	<u>11.04</u>
<u>Tea</u>	<u>11.34</u>	<u>5.61</u>	<u>4.59</u>	<u>6.96</u>	<u>4.96</u>
<u>Cotton</u>	<u>4.32</u>	<u>2.74</u>	<u>0.42</u>	<u>0.01</u>	<u>6.09</u>
<u>Tobacco</u>	<u>2.63</u>	<u>1.88</u>	<u>3.21</u>	<u>8.92</u>	<u>7.33</u>
<u>Skins & Hides</u>	<u>1.84</u>	<u>1.10</u>	<u>1.62</u>	<u>2.00</u>	<u>1.60</u>
<u>Maize</u>	<u>2.28</u>	<u>3.21</u>	<u>1.39</u>	<u>2.37</u>	<u>2.37</u>
<u>Beans</u>	<u>0.15</u>	<u>0.48</u>	<u>0.64</u>	<u>1.03</u>	<u>2.34</u>
<u>Flowers</u>	<u>2.30</u>	<u>1.65</u>	<u>1.36</u>	<u>2.10</u>	<u>1.65</u>
<u>Oil re-export</u>	<u>3.00</u>	<u>2.53</u>	<u>3.21</u>	<u>2.50</u>	<u>1.26</u>
<u>Fish</u>	<u>5.70</u>	<u>4.28</u>	<u>12.58</u>	<u>16.63</u>	<u>12.74</u>
<u>Others</u>	<u>6.12</u>	<u>11.55</u>	<u>12.21</u>	<u>26.67</u>	<u>17.44</u>

Source: Bank of Uganda

Imports

Total imports declined by 4.8 per cent from US\$332.55 million in the second quarter to US\$316.57 million in the third quarter and by 10.0 per cent compared to the corresponding quarter a year ago. This was mainly on account of a lower import value of private sector imports in the quarter under review compared to the previous quarter and a similar quarter last

financial year. Government imports fell marginally by 1.1 per cent from US\$71.14 million in the second quarter to US\$70.33 million in the review quarter, while private sector imports declined by 5.8 per cent to US\$246.24 million. Oil imports remained relatively stable at US\$14.48 million during the quarter (see table 9 for summary developments in imports).

Table 9: Summary Imports Developments
(US \$ million)

	97/98 Q3	97/98 Q4	98/99 Q1	98/99 Q2	98/99Q3
Total Imports	351.71	379.22	393.73	332.55	316.57
Government Imports	61.65	62.88	59.56	71.14	70.33
Private Imports	290.07	316.34	334.16	261.41	246.24
Oil	21.60	19.99	20.96	14.60	14.48
Non-Oil	150.03	159.02	166.47	136.34	140.45

Source: Bank of Uganda

Other Current Account Developments

The services account registered a deficit balance of US\$48.51 million compared to a deficit of US\$64.05 million recorded in the preceding quarter and US\$73.06 million deficit in the corresponding quarter in 1997/98. The income account slightly worsened from a deficit of US\$5.02 million in the second quarter to US\$5.94 million during the quarter under review, largely on account of increased payment of interest on public debt from US\$10.62 million in the second quarter to US\$13.37 million.

Current transfers declined by 2.9 per cent from US\$165.97 million in the second

quarter to US\$161.15 million in the third quarter. This largely reflected the fall in private transfers from US\$105 million in the second quarter to US\$63.61 million in the third quarter. Transfers to government remained quite strong, increasing from US\$58.92 million in the second quarter to US\$97.24 million in the third quarter.

Overall, the BOP was financed by a reserve build up of US\$33.40 million and US\$18.0 million of exceptional financing. The stock of reserves in terms of months of imports of goods stood at 6.36 by the end of the reporting period compared to 5.93 months of imports at the end of the second quarter of 1998/99 (see summary developments in the BOP in table 10 below).

Table 10: Summary Balance of Payment Developments
(US \$ million)

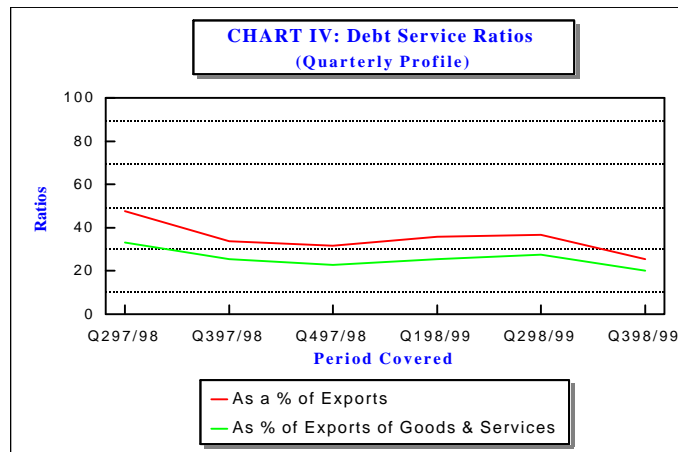
	97/98Q3	97/98Q4	98/99Q1	98/99Q2	98/99Q3
Current Account Balance	-69.00	-72.46	-174.45	-86.10	-41.06
Exports (fob)	135.04	105.70	125.35	144.54	168.81
Imports (cif)	-351.71	-379.22	-393.73	-332.50	-316.57
Services and Income (net)	-73.06	-76.76	-80.40	-64.05	-48.51
Current Transfers	220.74	277.82	174.31	165.97	161.15
Capital and Financial Account Balance	111.63	108.13	124.14	103.34	87.73
Overall Balance	42.62	35.67	-50.31	17.24	46.67
Total Forex Reserves (end period)	682.49	750.50	712.50	720.40	753.80
Reserves (in months of imports)	5.96	6.38	5.84	5.93	6.36

Source: Bank of Uganda

6. EXTERNAL DEBT SERVICE

In the third quarter of the fiscal year 1998/99, maturities falling due on medium and long-term publicly guaranteed external debt totaled US\$ 43.59 million, lower than the amount recorded in the second quarter of 1998/99 by US\$9.7 million. Principal maturities were US\$ 30.23 million, while the balance of US\$ 13.36 million represented interest falling due. Debt service as a percentage of exports of goods and non factor services fell to record 19.95 per cent from 27.41 per cent in the previous period . Apart from the lower maturities (and associated debt service), the fall in debt service reflected the slight increase in merchandise as well as service export receipts during the period. The total payments of medium and long-term debt amounted to US\$ 37.28 million compared to US\$ 53.03 million made in the second quarter of 1998/99.

These payments include IMF total service recorded at US\$ 8.65 million compared to US\$ 21.39 million made in the second quarter of 1998/99 fiscal year. These third quarter payments to the Fund were composed of scheduled principal equivalent to US\$ 8.28 million and interest charges of US\$ 0.38 million. The cumulative debt service relief received through resources obtained from the international community for debt relief under the HIPC initiative increased to US\$ 13.88 million compared to US\$ 8.62 million realised in the previous quarter. The slight increase in the level of transfer of HIPC resources was mainly explained by the profile of maturities to the major multilateral creditors, as these represented the source of bulk of the grants. The chart below shows the quarterly profile of debt service ratios up to the period under review.



There were no purchases from the International Monetary Fund recorded during the period under review following a decision to delay the review the ESAF program. However, during the second quarter of 1998/99 purchases from the Fund

amounted to an equivalent of US\$ 23.27 million. Private sector medium term debt service activity increased slightly in terms of total payments for scheduled maturities which were recorded at US\$ 14.09 million compared to US\$ 10.0 million paid out in the second quarter of the financial year 1998/99.

7. DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

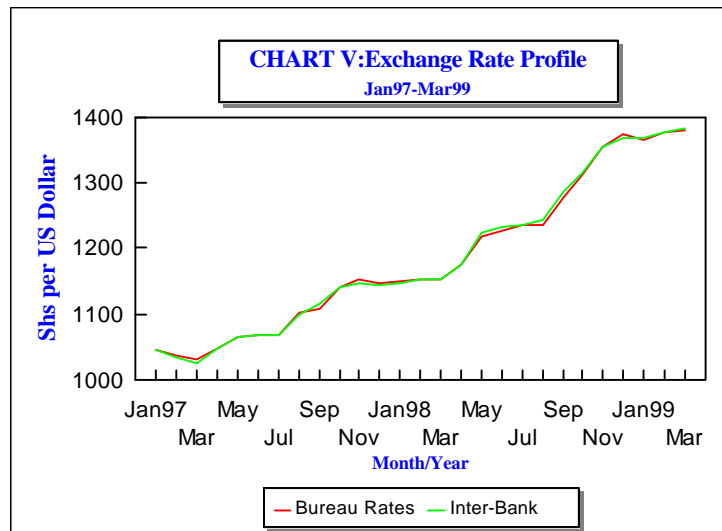
Foreign Exchange Rates

During the quarter under review, the average mid-rate in the inter-bank foreign exchange market depreciated by 0.9 per cent, from Shs1368.44 per US dollar in December, 1998 to Shs1381.16 per US dollar in March, 1999. This compares with a depreciation of 4.1 per cent in the previous quarter and 0.8 per cent in the corresponding quarter a year ago. In the bureau market, the average mid-

rate depreciated by 0.4 per cent from Shs1375.06 per US dollar in December,

1998 to Shs1380.88 per US dollar in March, 1999.

The relative stability experienced in the foreign exchange market during the first two and half months of the quarter was partly due to coffee pre-finance inflows and occasional BOU intervention to smoothen fluctuations in the market. However following the end of coffee season, the banning of fish exports and the reduction in tourism activities, the shilling depreciated faster on a daily basis from mid-March.

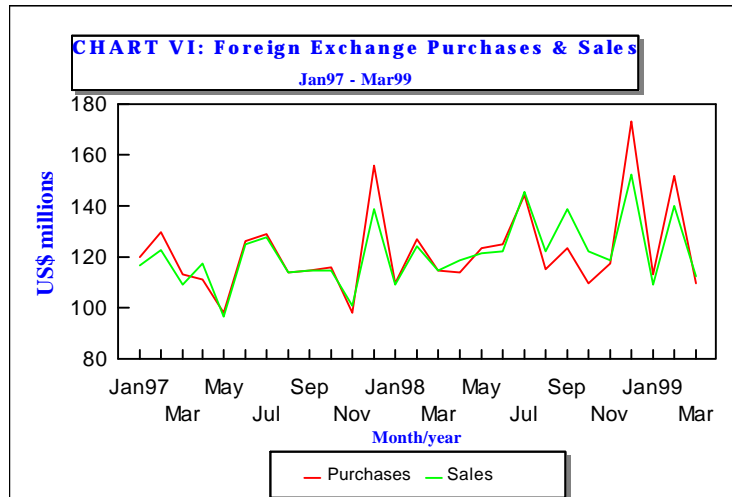


Transaction Volumes

Purchases in the inter-bank foreign exchange market amounted to US\$374.54 million while gross sales totalled US\$361.94 million. This compares to US\$399.82 million and US\$393.41 million in purchases and sales, made in the previous quarter respectively. In the bureau market

purchases and sales were US\$76.37 million and US\$74.65 million, compared to US\$90 million and US\$86 million in the preceding quarter respectively.

To maintain relative stability in the market BOU intervened and bought US\$13 million (net) from the inter-bank foreign exchange market.

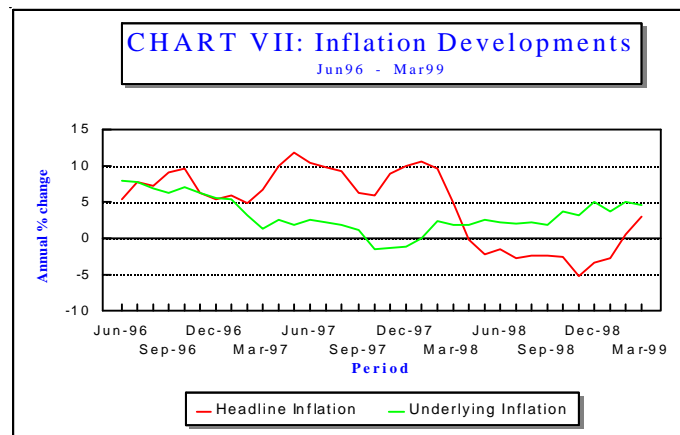


8. PRICE DEVELOPMENTS

During the quarter under review the annual headline inflation rate experienced a fast rising trend from negative 3.4 per cent in December, 1998 to 3.0 per cent in March, 1999. The rise in inflation rate over the period was partly attributed to a sharp reduction in food prices during the same period in 1998 (food price inflation dropped from 37.9 per cent in December, 1997 to 11.7 per cent in March, 1998) as prices reverted to the pre-El Nino levels. The other factor was related to the higher than expected food prices between January and

inflation increased from negative 18.8 per cent in December, 1998 to negative 0.6 per cent in March, 1999.

The monthly inflation rate on the contrary decelerated from 2.4 per cent in December, 1998 to 0.5 per cent by March, 1999. The annual underlying inflation rate fell from 5.0 per cent in December, 1998 to 3.9 per cent in January, 1999 then peaked at 5.1 per cent in February before declining to 4.6 per cent in March, 1999. The rise in the annual underlying inflation rates in



March, 1999 due to food shortages arising from insufficient rains in some parts of the country. As a result of the above developments, annual food price

December and February, 1999 was partly due to increases in the costs of education and prices of beverages.

9. MANUFACTURING

There was an overall upward trend in the index of industrial production over the nine months to March 1999. However, activity during the quarter to March 1999 was much on the decline.

During the quarter under review, the monthly index of industrial production of major manufacturing for all items registered a decline of 3.6 per cent in February, 1999 from a robust growth of 23.4 per cent in December, 1998. The index of production of sugar, beer and soft drinks increased by 40.5, 29.1 and 92.7 per cent respectively, during the month of December, 1998, reflecting the increased demand for these products over the Christmas season.

The index of sugar production however, fell by 22.3 per cent in January, 1999 and further declined by 7.9 per cent in February due to the

closure of one of the factories for maintenance work. Similarly, the index of beer production declined by 2.9 per cent in February, 1999 while that of soft drinks decreased by 6.4 per cent. On the contrary, the production index of cigarettes rose by 1.5 per cent in December, 1998 and 27.8 per cent in February, 1999. The production index of other sectors like textiles, cement, electricity and laundry soap and edible oil, all declined in February, 1999. The decline in the production index of edible oil was due to seasonal fluctuations in the demand and lack of raw materials.

